

## Message Text

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ACTION ARA-10

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FM AMEMBASSY MEXICO

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E.O. 11652: N/A

TAGS: EFIN, MX

SUBJECT: LOPEZ-PORTILLO COMMENTS ON ECONOMIC ISSUES

1. SUMMARY: AMBASSADOR CALLED ON SECRETARY OF FINANCE AND PUBLIC CREDIT ON DECEMBER 18, ACCCOMPANIED BY MINISTER, E/C COUNSELOR AND FINATT. LOPEZ-PORTILLO OPENED THE DISCUSSION, WHICH WAS VERY CORDIAL, BY JOKING WITH THE AMBASSADOR OVER POSSIBILITIES OF U.S. TAKING MEASURES TO CONTROL ARAB INVESTMENTS IN U.S. LOPEZ-PORTILLO SAID MEXICO WOULD GIVE PREFERENTIAL TREATMENT TO LDC'S (WITHOUT NECESSARILY EXCLUDING U.S.) IN ITS SALES OF OIL, BUT NOT AT BELOW-MARKET PRICES. 1975 WOULD BE A DIFFICULT YEAR BUT MANAGEABLE FOR MEXICO, WITH THE LONGER-TERM OUTLOOK BRIGHTER. HE SAID U.S. RECESSION WOULD IMPACT ON MEXICO'S NORTHERN FRONTIER AND ITS BALANCE OF PAYMENTS, BUT ASSERTED THAT PESO WOULD NOT BE DEVALUED. SUBJECTS COVERED BY LOPEZ-PORTILLO SUMMARIZED BELOW. END SUMMARY.

2. OIL. IN RESPONSE TO QUESTION AS TO WHETHER MEXICO WOULD SELL ITS OIL AT BELOW MARKET PRICES OR ON SPECIAL TERMS TO ITS LESS DEVELOPED NEIGHBORS AS REQUESTED BY GUATEMALA

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AS VENEZUELA IS DOING, LOPEZ-PORTILLO SAID THAT MEXICO

WOULD GIVE PREFERENTIAL TREATMENT TO ENSURE SUPPLY TO VARIOUS COUNTRIES, CITING ITS RECENT AGREEMENTS WITH PHILIPPINES (SEE MEXICO 10591), BRAZIL AND URUGUAY, BUT MAKING AN ANALOGY WITH U.S. GRAIN SALES, HE SAID MEXICO WOULD NOT SELL AT BELOW-MARKET PRICES. IN THIS CONNECTION, HE EXPRESSED APPRECIATION FOR PREFERENTIAL TREATMENT U.S. IS WILLING TO GIVE MEXICO IN SALES OF COMMODITIES IN SHORT SUPPLY SUCH AS GRAINS. LOPEZ-PORTILLO SEEMED TO INDICATE SOME CONCERN AT VENEZUELA'S PENETRATION OF CENTRAL AMERICA THROUGH ITS OIL SALES AT SPECIAL TERMS, STATING THAT THIS WAS MEXICO'S NATURAL MARKET, BUT THAT THIS AREA HAD BEEN OVERLOOKED. HE ALSO EMPHASIZED THAT MEXICO WAS DIFFERENT FROM VENEZUELA IN THAT ITS ECONOMY WAS NOT DEPENDENT ON ONE OR TWO COMMODITIES, BUT RATHER WAS A MORE BALANCED ECONOMY.

3. ECONOMIC OUTLOOK. LOPEZ-PORTILLO SAID 1975 WOULD BE A DIFFICULT YEAR FOR THE MEXICAN ECONOMY, BUT NOT PARTICULARLY SERIOUS THANKS TO THE NOVEMBER TAX REFORM PACKAGE AND OIL. THE PUBLIC SECTOR BUDGET DEFICIT (ABOUT 10 PERCENT OF EXPENDITURES OR 30 BILLION PESOS) WOULD BE MANAGEABLE AND THE CURRENT ACCOUNT DEFICIT OF ABOUT DOLS 2 BILLION SHOULD BE FINANCED WITHOUT GREAT DIFFICULTY, THOUGH HE NOTED PROBLEMS IN BORROWING FROM U.S. BANKS AND IN THE EURODOLLAR MARKET AT REASONABLE TERMS. HE SAID THAT MEXICO HAD BEEN RECEIVING OFFERS OF PETRODOLLARS RANGING FROM ONE TO MORE THAN TEN BILLION DOLLARS, BUT THAT NONE HAD YET COME THROUGH REPUTABLE BROKERS, OR ON THE RIGHT TERMS. LOPEZ-PORTILLO WAS BULLISH FOR THE LONGER TERM, CITING OIL, PETRO-CHEMICALS, PHOSPHATES IN BAJA CALIFORNIA AND OTHER MINERALS THAT WOULD BE PRODUCED IN LARGE QUANTITIES WITHIN THE NEXT FEW YEARS.

4. IMPACT OF U.S. RECESSION IN MEXICO. LOPEZ-PORTILLO SAID THIS WOULD BE FELT IN THE NORTH AND ON THE BALANCE OF PAYMENTS. IT MAY BE NECESSARY FOR GOM TO UNDERTAKE NEW INVESTMENTS IN FRONTIER AREAS TO AVOID INCREASED UNEMPLOYMENT. THE MAQUILADORAS AND OTHER EXPORTERS OF MANUFACTURED PRODUCTS MAY SUFFER FROM THE U.S. SLOWDOWN, BUT AGRI-CULTURAL EXPORTS OTHER THAN MEAT SHOULD CONTINUE TO DO WELL. RE IMPORTS, HE SAID MEXICO WOULD CONTINUE TO

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REQUIRE LARGE AMOUNTS OF FOODSTUFFS IN 1975, AND MAY FIND IT EASIER TO IMPORT CAPITAL GOODS THAT WERE FORMERLY SCARCE.

5. PESO EXCHANGE RATE. THE SECRETARY ASSERTED THERE WAS NO REASON TO DEVALUE THE PESO. HE SAID TOURIST HOTELS WERE OPERATING AT MAXIMUM CAPACITY AND THAT U.S. RECESSION SHOULD NOT IMPACT ON THE TOURIST TRADE AS MEXICO WAS A FALLBACK CHOICE FOR THOSE NOT WISHING TO PAY FOR A MORE EXPENSIVE

EUROPEAN VACATION. ALSO, MEXICO COULD NOT INCREASE ITS EXPORTS BECAUSE OF THE STAGNATION OF THE U.S. MARKET.

6. THE CHARTER. LOPEZ-PORTILLO MENTIONED THE CHARTER ONLY IN PASSING, CLAIMING THAT IT WOULD HAVE EVENED OFF SOME OF THE ABRUPT CHANGES IN THE WORLD ECONOMIC STRUCTURE OVER THE PAST YEAR. MAKING SEVERAL REFERENCES TO TURNS IN THE "WHEEL OF FORTUNE" THE SECRETARY SAID THAT THE CHARTER WOULD PROTECT COUNTRIES THAT PRESENTLY DO WELL BUT WHICH TOMORROW MAY EXPERIENCE SERIOUS ECONOMIC PROBLEMS, E.G., JAPAN AND EVEN THE U.S.

7. THE SECRETARY SAID HE WOULD BE VISITING WASHINGTON IN MID-JANUARY FOR THE DEVELOPMENT COMMITTEE MEETING. HE SAID HE WOULD BE DISCUSSING SOME PROBLEMS WITH THE IDB, AN APPARENT REFERENCE TO MEXICAN BORROWING FROM THE FSO, AN ISSUE WE DID NOT PRESS. JOVA

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